Weekly Economic Review

Housing market still stuggling

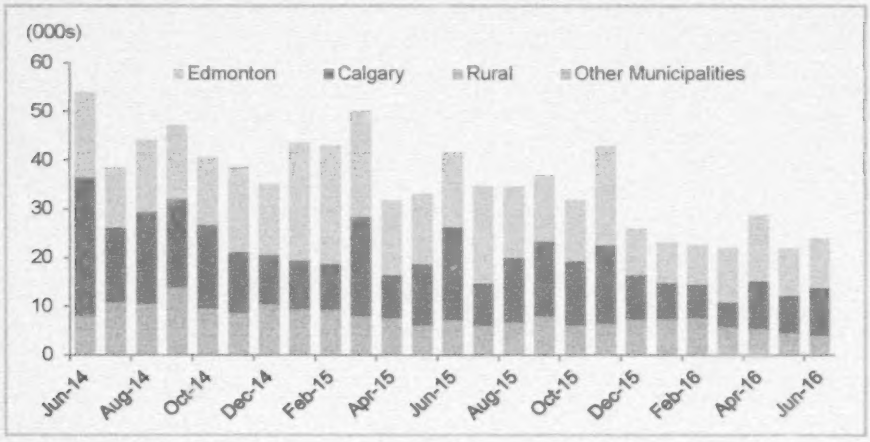
Housing Starts

Housing starts stuck near five-year low

Alberta housing starts appear to be stabilizing, but continue to hover near the lowest level in five years. In June, there was an uptick in housing starts to 24,001 (annualized) (Chart 1), but they remained down 42% year-over-year (y/y). Multi-family starts were down 52% y/y, constrained by a marked slowdown in the construction of new apartment buildings. Single family starts also remained weak (-25% y/y). Housing starts in Alberta's largest cities – Calgary (-49% y/y) and Edmonton (-34% y/y) – continued to underwhelm, while starts in rural areas also waned (-31% y/y). Protracted weakness over the first half of the year pushed starts down 41.8% year to-date (YTD), but the present weakness partially reflects the high number of housing starts initiated in the first half of 2015.

Chart 1: Housing starts still soft

Alberta housing starts (annualized)



Source: Statistics Canada

Chart 2: Uptick in sales improves market balance

Alberta existing home sales, new listings and sales-to-new-listings ratio

Source: Canadian Real Estate Association

Resale Housing

Resale market steadily rebalances

There were 4,459 existing home sales across Alberta in June (Chart 2), up 3.2% m/m from May. Apart from a slight decline in Lloydminster, resale activity either increased or was unchanged in the rest of the province. The monthly uptick in sales pushed the sales-to-new listings ratio up a percentage point to 53.1%, outweighing a coinciding increase in new listings; the steadily rising ratio signals that the resale market has become more balanced over the past six months. However, resale activity is still at its lowest level since late-2011, with the number of resold homes down by 11% y/y. The average resale price across Alberta slipped to $389,164, down by $5,262 y/y.

New Housing Price Index

House prices largely unchanged

Despite protracted weakness in the housing market, Alberta's New Housing Price Index (NHPI) house prices was essentially unchanged; the NHPI was down a mere 0.1% y/y in May. Calgary prices deflated by 0.4% y/y, while Edmonton's NHPI was positive at 0.1% y/y. Land prices across the province were up 1.1% y/y in May, while non-land prices continued to fall (-0.7% y/y).

Manufacturing Shipments

Manufacturing mired in weakness

After two monthly increases, the value of manufacturing shipments fell by 2.0% to $5.0 billion in May (Chart 3). Both the value and volume of petroleum and coal shipments declined, with the wildfire dampening already weak manufacturing activity. An increase in chemical manufacturing partially offset weakness in other categories. Manufacturing activity was down 14% y/y due to broad-based relative weakness in both energy (-28% y/y) and non-energy products (-9.7% y/y). Machinery shipments (-50% y/y) remain especially hard hit.

Non-Residential Investment

Investment down for a fifth quarter

Alberta's non-residential building investment fell to just under $2.7 billion in the second quarter of 2016, down 6.5% y/y (Chart 4). This was the fifth straight quarter of waning investment. Institutional and governmental building developments remained robust, up 52% y/y, but were more than offset by the weakness in industrial (-38% y/y) and commercial (-13% y/y) investment. Compared with the previous year, rising institutional and governmental investment has benefited Edmonton and Calgary, whereas commercial investment has been weak in both cities. For industrial investments the picture was more mixed; Calgary has experienced an improvement over the past few quarters while industrial building investment in Edmonton has plunged since mid-2015.

Global Economy

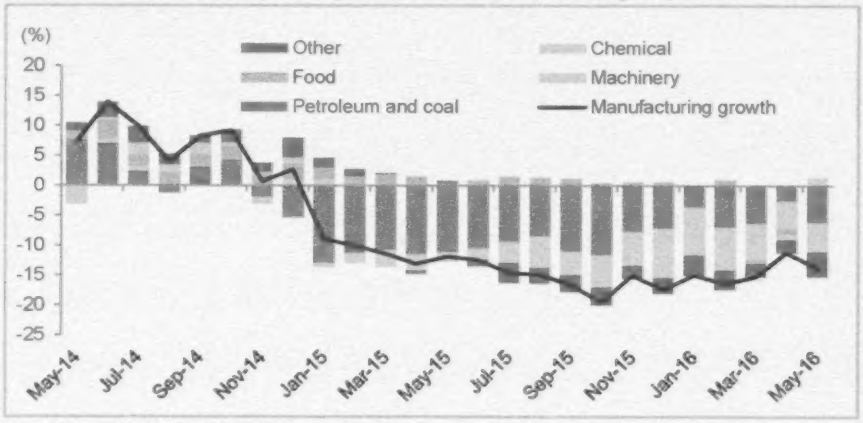
Weaker outlook but no rate change

The Bank of Canada kept the overnight interest rate at 0.5% while downgrading its growth outlook for 2016 in the latest Monetary Policy Report – reversing improvements to the Bank's outlook published in April. Canada's real GDP forecast was cut by 0.4 percentage points to 1.3% this year. The revised outlook reflects the impact of the Northern Alberta wildfire and related oil production stoppages as well as heightened uncertainty within the global economy. The economy should improve as the adjustment to lower energy prices crystallizes, with growth forecasted at 2.2% and inflation reaching the two per cent target in 2017.

Chinese growth exhibits resilience

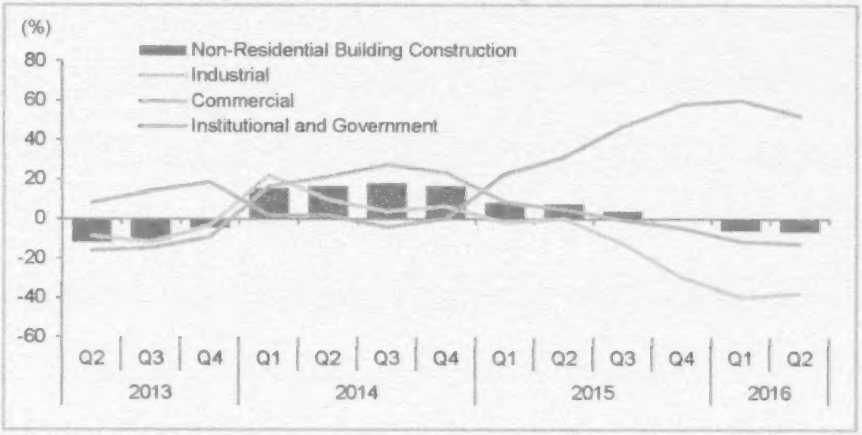
China's economic growth held steady at 6.7% in the second quarter of 2016. The resiliency of China's economy in mid-2016 follows a steady slowdown over the preceding few quarters.

Chart 3: Prolonged broad-based weakness weighs on manufacturing
Contributions to monthly change in Alberta manufacturing shipments



Source: Statistics Canada

Chart 4: Institutional and government investment remains robust
Year-over-year change in non-residential building construction



Source: Statistics Canada

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.